

# **MINUTES OF ROANOKE CITY AUDIT COMMITTEE**

**December 20, 2004**

## **1. CALL TO ORDER:**

The meeting of the Roanoke City Audit Committee was called to order at 1:15 p.m. on Monday, December 20, 2004, with Chair, Dr. M. Rupert Cutler, presiding.

- **The roll was called by Mrs. England**

### **Audit Committee**

**Members Present:** Dr. M. Rupert Cutler, Chair  
Vice-Mayor Beverly T. Fitzpatrick, Jr.  
Alfred T. Dowe, Jr.  
Sherman P. Lea  
Brenda L. McDaniel

**Others Present:** Drew Harmon, Municipal Auditor  
Darlene L. Burcham, City Manager  
William M. Hackworth, City Attorney  
Jesse A. Hall, Director of Finance  
George C. Snead, Jr., Asst. City Manager for Operations  
Rolanda B. Russell, Asst. City Manager for Community Development  
Ann Shawver, Deputy Director of Finance  
R. Timothy Conner, Partner, KPMG LLP  
Peter J. Ragone, II, Senior Manager, KPMG LLP  
Major James Brubaker, Sheriff's Department  
Mike Tuck, Assistant Municipal Auditor  
Pamela Mosdell, Information Systems Auditor  
Brian Garber, Senior Auditor  
Cheryl Ramsey, Auditor  
Doris England, Administrative Assistant

## **2. FINANCIAL KPMG AUDIT REPORTS – JUNE 30, 2004**

- A. Report to the Audit Committee of City Council
- B. Comprehensive Annual Financial Report and Auditor's Opinion
- C. Management Letter
  - Management Response

Dr. Cutler ordered that the KPMG audit reports be received and filed. There were no objections from the committee. Dr. Cutler recognized Mr. Harmon for comments. Mr. Harmon asked Director of Finance, Jesse Hall, and Deputy Director, Ann Shawver, to provide a brief overview of the CAFR.

Mr. Hall explained the financial reports include information required by federal agencies, state agencies, generally accepted accounting guidelines, as well as

reports recommended by the Government Finance Officers Association. Mr. Hall recognized Ann Shawver to give the committee some highlights of the City's financial report.

Ms. Shawver directed the committee's attention to a two-page summary of the City's Comprehensive Annual Financial Report (CAFR). The summary follows the table of contents of the CAFR. She then pointed out the following areas:

- Page 3 – Introductory letter
- Page 20 – Independent Auditors' Report, which states an unqualified, clean opinion
- Page 23 – City's Management Discussion and Analysis, which includes narrative information and analytical data
- Page 35 – Statement of Net Assets – This statement and the one that follows are the most consolidated and combined statements in the annual report. They answer the question, "Is our financial position better or worse as a whole than it was a year ago?" These statements include both capital assets and debt.
- Pages 36 & 37 – This report indicates programs the government provides and the cost of those programs. General revenues are listed in the bottom half of the statement, as well as the change in assets between the beginning of the year and the end of the year. When asked about the water and sewer inclusion on this year's report, Ms. Shawver replied that water and sewer were included in this report because they were still with the City through June 30, 2004. As of July 1, 2004, water and sewer were transferred to the authority; therefore, they will not be on next year's report.
- Page 38 – This report shows the general fund by itself, without capital assets and debt information.
- Page 40 – This is the Income Statement version using the fund view of these financial statements as opposed to the entity-wide view.
- Page 50 – Footnotes – These are disclosures that are required to be made, such as #18, which refers to the Western Virginia Water Authority. Other disclosures are accounting policies, deposits and investments, capital assets and changes, long-term liabilities including debt, leases and claims payable, risk management, pension plan, and related entities (such as the Water Authority) the City participates in with other governments.
- Page 106 – A total of 14 statistical tables, most representing ten years of data, including key revenues and expenditures.
- Page 116 – These are required financial reports relating to the expenditures of federal awards, both for the City and the Schools.
- The last few pages are reports from the auditors.

Ms. Shawver thanked all the members of the Finance Department for their contribution to the CAFR. She also offered to meet with Audit Committee members who would like further review of the document.

Chairman Cutler read the last paragraph of the Management Letter, Comments and Recommendations to the committee. This states, "The City's Finance Department personnel resources are currently stretched to capacity. Given the issues stated above, we recommend the City provide the necessary funds and support for the Finance Department to have sufficient resources available to meet the many challenges ahead." Dr. Cutler said he appreciates and acknowledges that statement, and he thanked Ms. Shawver for the presentation.

Mr. Hall spoke about the City's pension plan, which is a multi-employer pension plan. It includes about 2100 active members, 1550 retirees, and over 300 employees with vested service (those who are not currently drawing a pension but can at some time in the future). The CAFR for the pension plan is similar to the City's CAFR. It includes an introductory section, letter of transmittal, organizational chart, financial section, investment section, actuarial section, and statistical section.

The pension plan increased approximately \$23 million and paid out benefits just over \$18 million. The investment return for the year ended June 30, 2004, was 12.92 percent. Actuarially, the plan anticipates a 7.75 percent return each year. Contributions to the plan were in the amount of \$5.4 million.

Dr. Cutler asked Mr. Hall if he benchmarked the City's pension plan to the pension plans of other localities. Mr. Hall replied affirmatively and said there were 11 localities in the state that meet twice a year for that purpose. He further stated that the City of Roanoke's pension plan was doing well, actually better than most other localities.

Chairman Cutler recognized Mr. Harmon, who asked Mr. Conner to make comments on the Report to the Audit Committee and the Management Letter. Mr. Conner stated that before leaving the City's pension plan, he wanted to inform the committee that an unqualified, clean opinion was issued on the pension CAFR. An unqualified, clean opinion was issued on the City's CAFR, as Ms. Shawver previously mentioned. He also mentioned reports issued that were within the body of the City's CAFR. There were two additional separate reports, one of which was the Report to the Audit Committee. This goes over salient points of communication and conduct of the audit. The second report is the Management Letter that addresses four specific topics. KPMG has received management's response to the Letter and is comfortable with that response.

Dr. Cutler asked if there were any questions from the committee members regarding the Management Letter and the Response to the Management Letter. Mr. Lea said he had a question about the Human Services/Social Services information regarding steps taken to ensure the oversight would not reoccur. He asked if the Human Services Business Administrator position had been created. Ms. Burcham responded that a single position with significant responsibilities had been divided into two positions. As a result, this new

position was created to provide greater assurance of timely submission of the necessary documentation. The new person will begin work with the City on January 10, 2005.

Chairman Cutler asked for a summary of the question as to whether the City lost money or did not lose money because of this issue. Mr. Conner responded that KPMG observed the timeliness of submitting requests for reimbursements, but he was not aware of any reimbursements that would have been allowed that were not made. However, there were subsequent requests for reimbursements being made after the fiscal year end that were audited.

Mr. Harmon also responded that the budget administrator for the Virginia Department of Social Services, Mike Gump, had put his name to an e-mail stating he felt Roanoke did not lose any money overall, did not get any more or any less, because of this. The primary issue, as Mr. Harmon said he saw it, was understanding the reimbursement process and having personnel in place that could have explained the variance from the historically \$200,000 to \$300,000 amount to this year's amount of \$900,000. He said he felt this would not reoccur because things have been done to address the situation. Ms. Burcham said she thought we would continue to see an increase in non-reimbursables unless the state changes the way it funds Social Services. The state in recent years has allowed pass through of federal funds, but has not participated at the same level, so more funding has to be absorbed locally.

Dr. Cutler proceeded to another topic in the Management Letter, which involved the decision to move Social Services to the Civic Mall. He stated it was the auditors' observation that the detailed buy, build, or lease analysis was not documented. Ms. Burcham explained that when City Council made the decision to lease, there had been an analysis and conversations with the Council about that decision. Information had been provided by the previous Social Services director, and it was viewed at the time to be in the best interest of the City to go through the lease versus the build option. Recent e-mail and voice communications have substantiated that the decision was based upon the same information that was shared with the Council at that time. Ms. Burcham stated that the written documentation needed has not been found. However, the information recently received was the same as it was three years ago.

### **3. INTERNAL AUDIT REPORTS:**

- A. Computer Aided Dispatch (CAD)
- B. City Findings Follow-Up
- C. Human Resources Survey
- D. Parks and Recreation
- E. Sheriff's Canteen & Jail Inmate Funds

Dr. Cutler introduced the issue of the gold permits in the City Findings Follow-Up audit. Ms. Burcham pointed out a memo from Police Chief Gaskins to

Assistant City Manager, Rolanda Russell, dated December 17, 2004, which was included with that particular audit. The memo stated that after further review, there were a fewer number of secondhand jewelry dealers than the 40 identified in 2001. In 2004, only four companies were required to be issued a gold permit. Mr. Harmon said more details would be forthcoming on this because an annual audit was being conducted which would be presented to the Audit Committee in March, 2005.

Mr. Lea expressed some concerns regarding the Parks and Recreation audit. Mr. Harmon (because of the time constraint of the meeting) said he would be glad to meet individually or by telephone to discuss any concerns the committee members might have. He further explained that the part-time payroll overpayments came to light during the follow-up audit when a number of timesheets for one employee for the same pay period were noted. The ultimate cause was human error in trying to get paperwork for payroll processed quickly and taking some shortcuts that created bad results. There was not a great deal of money involved in the three years examined. It does not appear that the intent was to deceive, but that it was a matter of not following procedure. Municipal Auditing will be working with Parks and Recreation to give better feedback to the supervisors on how to improve in this area.

Dr. Cutler ordered that internal audits A through E be received and filed. There were no objections to the order.

**4. UNFINISHED BUSINESS:**

There was no unfinished business to come before the committee.

**5. NEW BUSINESS:**

There was no new business to come before the committee.

**6. ADJOURNMENT:**

There being no further business, the meeting was adjourned at 2:01 p.m.



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M. Rupert Cutler, Chair